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C O N F I D E N T I A L SECTION 01 OF 03 YEREVAN 000628

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TAGS: [PREL](#) [EAID](#) [ETTC](#) [EINV](#) [KNNP](#) [AM](#)  
SUBJECT: CUSTOMS REFORM: THE WINDS OF REAL CHANGE OR A  
SHIFTING SUMMER BREEZE?

Classified By: CDA Joseph Pennington, reasons 1.4 (b,d)

¶1. (C) SUMMARY: President Sargsian's young administration has made much of its new campaigns to overhaul customs and tax. CDA called on the new Chairman of the State Customs Committee, Gagik Khachatrian, with an eye toward assessing the new man's commitment and energy to change fundamentally the dysfunctional agency's ways of doing business. The new chairman outlined a pedestrian program of incremental improvements, but failed to dazzle us with dynamism. He made only a tepid pitch for greater U.S. assistance, and was lukewarm on our thought that U.S. advice could help improve the management effectiveness, efficiency, and throughput of the customs organization. We are reserving judgment on whether the budding reform process will prove serious. END SUMMARY

¶2. (C) CDA called on Khachatrian August 1, accompanied by Pol/Econ and EXBS, for an introductory meeting and to take the pulse of the new leadership. We had speculated that if the new customs management seems willing to seriously rethink its methods of operation, there may be a good opportunity for targeted U.S. assistance to galvanize big changes in customs management, which could potentially eliminate the serious drag that the existing Customs regime -- corrupt, unpredictable, cumbersome, expensive, and slow -- has created on the local investment climate. In fact, Customs has already undertaken some very positive initial steps to improve the transparency of its tariff assessments, and widespread reports from the business community affirm that corruption is at an all-time low. We had therefore arrived at the meeting in a hopeful mood. In the event, the new Customs chairman was highly ineffective at presenting even the achievements that have already been accomplished. A career veteran who has long served as the number two man at the chronically troubled agency, Khachatrian may not be disposed to acknowledge directly to a foreign diplomat the profound ills plaguing his organization. The lack of any willingness to discuss frankly the many and serious past problems was not the opening we were looking for as a pre-requisite to ratcheting up U.S. assistance to the agency in the near future. Khachatrian was flanked in this meeting by his recently-promoted number two, Artur Afrikian, who has been a long-standing bete noir in the embassy's customs relationship from his previous perch as a micro-managing and intransigent chief of staff.

¶3. (C) Khachatrian reported that the president has issued firm instructions and clear timelines for Customs overhaul from 2008-2010. He spoke of a new website scheduled to go live in 10 days, which will provide importers substantially more information about Customs procedures. He noted that the benchmark prices Customs uses to calculate tariffs on all types of goods will be available on the internet, as well as the tariff rates to be charged. He commented that it will reduce opportunities for customs officer corruption if

businessmen have access to correct information in advance. The move will also help importers to plan in advance what their customs charges will be. (COMMENT: In the past, importers could at best only make an educated guess about what their tariff costs would be, as the process for valuing goods and determining what tariff rate to use was opaque. END COMMENT). CDA and Khachatrian discussed the desirability of discarding the current system of index pricing in favor of using invoice pricing (direct trade inputs) to assess customs value, in combination with a risk-based fraud detection system. Khachatrian noted that this transition is planned. Khachatrian said the agency had also installed new hotline telephones at every port of entry, which importers could use to get answers directly from Customs headquarters in the event of disagreements or questions about the Customs officers' assessments. He noted that the agency has been getting approximately ten questions per day from its website and 15 from the new hotlines. He claimed that the agency was providing answers and solutions within one day.

14. (C) Khachatrian spoke of upcoming plans, soon to be phased in, for greater use of self-declarations (aka direct trade inputs) in customs assessments. He noted that a new procedure to do customs clearances right at customs warehouses -- instead of the recently-discarded requirement that importers appear separately at the Customs headquarters in Yerevan, and then go to claim their goods from the bonded warehouse -- is already saving importers time and effort. Khachatrian said that the agency needed more international donor investments in equipment, computers, and training, in order to realize fully the reform vision.

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15. (C) CDA thanked Khachatrian for the overview, and noted that we welcome the president's and prime minister's strongly stated commitment to reform Customs as a priority goal of the new administration. He complimented Khachatrian on the fact that our business contacts have reported a clearly different climate in customs with regard to corruption. CDA promoted the idea of customs outreach to its business constituencies, to work together to identify and improve process bottlenecks, inefficiencies, and unnecessary costs in customs processing. Khachatrian indicated that he intends to create a "public council" -- echoing other types of new government "public chambers" -- as a mechanism for outreach and feedback from the business community. The customs version of the public council is to be made up of major business advocacy organizations.

16. (C) CDA commented that past U.S. assistance efforts have not born as much fruit as we would have hoped. Officers would attend U.S.-sponsored training, but show no discernible change in day-to-day practice. U.S. funding had provided computer systems able to provide sophisticated tracking, analysis, and record-keeping of import data, only to have customs agents subvert the system by entering every shipment under a "miscellaneous" category. He mentioned that when we have offered training, absenteeism and lack of continuity had been serious problems. For a five-day course, for example, instructors might find themselves addressing completely different trainees each day. Khachatrian nodded, and briefly (rather unconvincingly) suggested that there would be greater commitment to taking advantage of foreign training and assistance.

17. (C) Khachatrian segued into another call for more funding for computer systems, and renewed customs' long-desired wish for foreign funding of a second bridge at the main Armenian-Georgian border checkpoint as well as a customs laboratory. He said he was in discussions with his Georgian counterparts to create a unified customs and border police checkpoint with the Georgian government, which would reduce the border crossing procedure from four stops down to just one. He also renewed the GOAM's request to negotiate a

formal Customs cooperation and information sharing agreement with the United States. CDA commented that the USG had had no appetite to negotiate such an agreement given the difficult relationship that had so long prevailed between the embassy and customs. However, this can be reopened for discussion if we find ourselves in a new climate with customs, marked by a collaborative spirit.

18. (C) The two briefly discussed personnel issues. Khachatrian reported that 89 customs officers have resigned since the start of the new government's reform drive, and he is making efforts to improve hiring and training practices to staff up the customs agency. He made a rather ham-handed nod toward gender equity, noting that through the great personal efforts of deputy director Afrikian, the agency had managed to hire three women as customs officers (apparently this was unprecedented) and was "watching after them very closely" apparently to ensure they found a congenial work environment. Khachatrian said that he intended to make a real effort to hire "young, attractive women with foreign language skills" into the customs service, "especially for the airport." (NOTE: The customs agency employs roughly 850 staff altogether. END NOTE)

19. (C) COMMENT: Khachatrian's hopelessly misogynist stereotypes aside, a careful review of the content of his presentation shows that he highlighted a number of encouraging areas for reform. The problem is that he and his deputy, Afrikian, lack credibility as the standard bearers of organizational transformation. Both men have been top leaders in the organization through years of profoundly corrupt, deeply politicized, and predatory practices. Another off note is that he failed to substantively engage on any point ventured by CDA -- failing to bite even on assistance ideas -- but rather moved quickly to other topics. Khachatrian's interest in international assistance seemed limited to high-tech equipment and expensive infrastructure projects, neither of which fit with our preference for slowly re-establishing trust through training and technical assistance until the reform process becomes further entrenched. Nonetheless, the president and prime minister continue to invest significant political capital in the premise of customs reform, and Khachatrian's prepared talking points cover many of the right themes. It is also a perversely encouraging sign that over ten percent of customs staff have resigned since the reform process was launched, as

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this would seem to imply that many of the officers who were in the agency for the wrong reasons have already decided that the anti-corruption drive will be long-lasting. Though we are disinclined at this time, on the basis of Khachatrian's performance, to recommend any major new U.S. assistance engagement with customs, we will certainly watch closely to see if the positive rhetoric bears fruit. It may be that by the mid-October U.S.-Armenia Economic Task Force (USATF) meetings in Washington, there could be more basis for fruitful collaboration.  
PENNINGTON